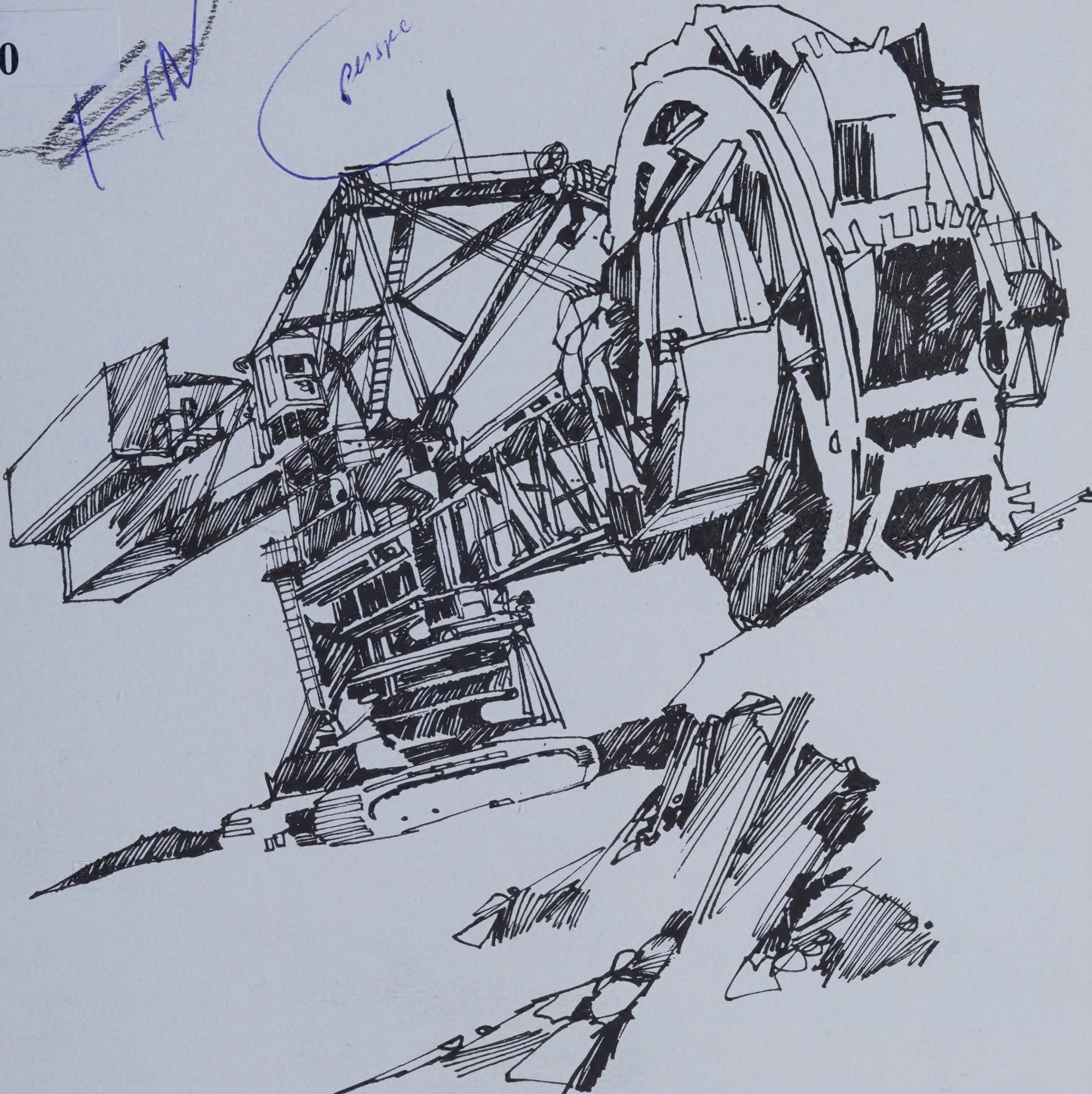
Great Canadian Oil Sands Limited

Annual Report 1974



Great Canadian Oil Sands Limited

DIRECTORS
(as at December 31, 1974)
Alex E. Barron
Kenneth F. Heddon
Gordon E. Hillhouse
Reginald D. Humphreys
Robert McClements, Jr.
William S. McGregor
Maurice B. Parmelee
W. Harold Rea
H. Robert Sharbaugh
J. Grant Spratt

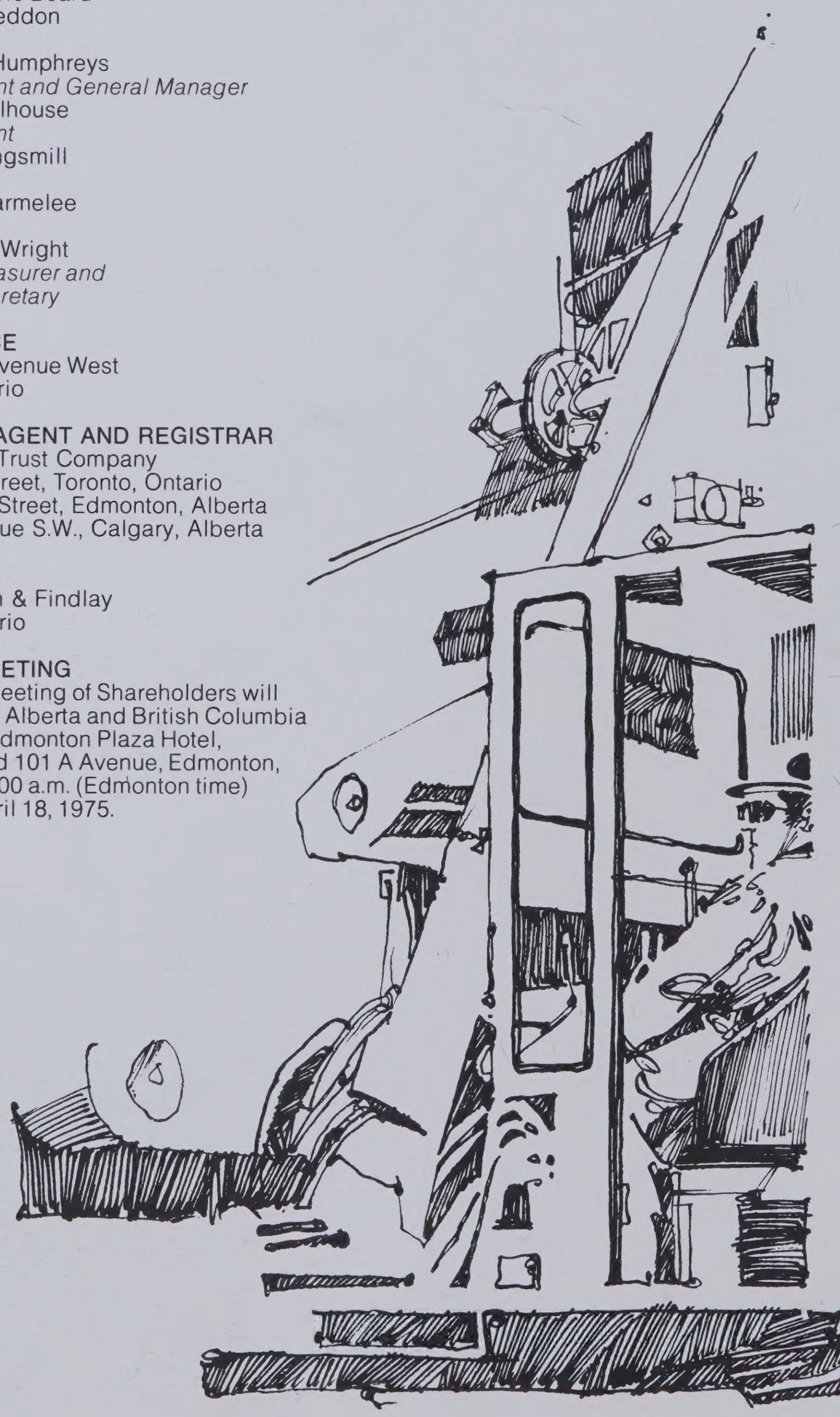
OFFICERS
(as at December 31, 1974)
W. Harold Rea
Chairman of the Board
Kenneth F. Heddon
President
Reginald D. Humphreys
Vice-President and General Manager
Gordon E. Hillhouse
Vice-President
Ardagh S. Kingsmill
Secretary
Maurice B. Parmelee
Treasurer
Anthony A. L. Wright
Assistant Treasurer and
Assistant Secretary

HEAD OFFICE
20 Eglinton Avenue West
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR
The Canada Trust Company
110 Yonge Street, Toronto, Ontario
10150 100th Street, Edmonton, Alberta
239 8th Avenue S.W., Calgary, Alberta

SOLICITORS
Tilley, Carson & Findlay
Toronto, Ontario

ANNUAL MEETING
The Annual Meeting of Shareholders will be held in the Alberta and British Columbia Rooms, The Edmonton Plaza Hotel, 100 Street and 101 A Avenue, Edmonton, Alberta at 10:00 a.m. (Edmonton time) on Friday, April 18, 1975.



Report of the directors

to the shareholders and employees

THE YEAR IN REVIEW

For the first time since beginning commercial operations in 1968, your company is pleased to report a profit. Before including an extraordinary item, income for 1974 was \$4 million, a return of 1.4 per cent on the shareholders' investment of \$291 million. In 1973 the company incurred a loss of \$2.3 million. The 1974 net income totalled \$12 million after including the extraordinary item which arose because income taxes for 1974 were offset as a result of losses incurred in previous years.

While the 1974 results have been encouraging, they must be viewed in the light of the circumstances under which GCOS operates. Your company mines a lease owned 25 per cent by CIGOL International Ltd. and 75 per cent by Sun Oil Company Limited. In 1970, because of financial difficulties, GCOS requested assistance from the lease owners through a reduction of royalties. CIGOL waived 50 per cent of its royalties and Sun Oil Company Limited granted a 100 per cent royalty reduction. CIGOL's waiver expired in 1973 but Sun Limited has continued to waive payment of all its royalties. In 1974, the value of this temporary relief to GCOS was \$13 million. Had the royalty been payable over the year, your company's profit would have been eliminated. Sun Limited cannot be expected to continue this support indefinitely.

Furthermore Sun Oil (U.S.) holds \$165 million in seven per cent non-cumulative preferred shares on which no dividends have been declared to date. If this dividend had been paid in 1974, it would have amounted to \$11.5 million and resulted in a loss, before extraordinary item, of 26 cents per common share (See Note 13 to Financial Statements). Had lease royalties also been paid to Sun Limited, the loss per common share would have been significantly greater.

Revenues in 1974 totalled \$108 million up from \$73 million for 1973. The increase was due to higher crude prices which went into effect on April 1. At year-end, your company was receiving an average of \$7.00 per barrel for its synthetic crude. Production over the 12 months was 16,679,000 barrels, an average of 45,700 barrels per day, down nearly nine per cent from 1973. The drop largely reflects a variety of utility and mechanical problems which occurred over the year.

Costs increased substantially in 1974 due to a number of factors. Among these were higher overburden removal expense; a natural gas price increase; wage and salary increases including cost-of-living adjustments; and high maintenance manpower needs. Costs also were affected by the utilities and mechanical problems mentioned earlier. Steps are being continually taken to ease future cost pressures in those areas where we have control. However, still higher natural gas prices

appear likely as do material and labour costs which are being pushed upward by inflation.

Capital spending in 1974 was $17 million. Investments were made in additional conveyors, conveyor belting, environmental protection and improvements in the extraction and processing plants. Also included in the amount were $9 million for the construction of new employee housing and land servicing. In all 319 new housing units were built bringing the total number of housing units provided by GCOS to 1217.

In 1973, the Province of Alberta approved a GCOS application to increase its authorized production to 65,000 barrels daily. In light of the present uncertain investment climate and the high rate of inflation, it has been decided that it would be more appropriate to continue with a debottlenecking program to increase the productive capacity of present facilities rather than to proceed with a major expansion program.

The company also is taking other steps to try to increase productivity. During 1974, one such step was a reorganization of management. Three new posts, all reporting to the vice president and general manager were created. They are director of plant operations; director of finance and planning; and director of marketing. The latter holds responsibility for uncovering and developing profitable opportunities to upgrade product sales and for marketing oil sands technology on an on-going basis.

Toward the latter part of the year the Provincial Auditor of Alberta completed a royalty audit and a special study of the GCOS books. The special study was undertaken in response to concerns expressed publicly about the price for synthetic crude which GCOS received from sales to its parent company, Sun Oil (U.S.). The investigation by the Provincial Auditor concluded that GCOS had not given Sun Oil a pricing preference on such sales. As well, the audit noted that provincial royalties on synthetic crude have been correctly computed and assessed.

Near year-end, the GCOS pipeline ruptured some 100 miles south of Fort McMurray. About 11,900 barrels of synthetic crude were spilled. Some was recovered and the remainder burned on the advice of and in conjunction with the Alberta Energy Resources Conservation Board and the Provincial Department of Lands and Forests. Steps also have been taken to make sure the area surrounding the spill has been carefully cleaned up. Monitoring instruments reported the break immediately and the line was shut down within minutes. The rupture occurred in low-lying country near the House River and the bulk of the oil was spilled through drainage from the pipe. Quick reaction on the part of clean-up crews prevented any major damage to the surrounding environment. The response was based on careful preplanning which had been developed to ensure an overall integrated approach to environmental protection with respect to the pipeline's operations. This involves being able to locate quickly an oil spill along the line's 250-mile length and rapidly deploy men and equipment for clean-up operations. As an added precaution, manually operated valves are located at all main river crossings.

Many people with varied skills contribute to the operating performance of our enterprise. For their efforts over the past year, we want to extend our thanks. In addition, we want to recognize those employees whose work on behalf of Fort McMurray extends beyond their day-to-day jobs. Many GCOS employees devote numerous hours of personal time to the community through involvement in government or through their work with service clubs and similar groups. We are proud to count these people as our associates in helping to make Fort McMurray a better place to live for all its residents.

FUTURE OUTLOOK

Looking ahead to 1975, the company has budgeted for increased capital spending over 1974. Major expenditures are planned to maintain and improve production capability through present facilities. Outlays will be made for additional conveyor belting; the new bucketwheel excavator; and improvements in the extraction plant. In addition, funds will go for new employee housing; added offsite and onsite housing services; and the completion of housing units begun in 1973 and 1974.

The GCOS operation is still far from earning a satisfactory return for its shareholders. While every step is being taken to make the plant more efficient, the solution must lie in higher crude prices and appropriate Federal government policies.

The point comes sharply into focus when considering the Federal tax treatment of Provincial Crown royalties. Such royalties have traditionally been deductible as a business expense. To GCOS, their disallowance as a deduction in computing Federal income tax added a cost of $3.6 million in 1974. From the point of view of the thousands of shareholders in GCOS, the disallowance means a further deferral of any dividend on their investment.

There also is an indirect impact which must be considered. Disallowance of royalties and removal of tax incentives are among the factors causing potential developers to defer or perhaps abandon their oil sands projects. This will cause GCOS to lose, or at best, have delayed, potential income from sales of oil sand technology.

From the point of view of the nation, considerable doubt clouds future oil sands development. Many factors are acting to create this doubt. One is the present inflationary environment. Another of major significance is the lack of accord between governments on one hand and governments and industry on the other. Until these problems are resolved then it would appear that the Athabasca oil sands will play only a minor role in providing Canada's future energy needs.

Through the years, the Canadian oil industry has demonstrated the ability to bring hydrocarbon energy to market at reasonable prices. Unless the industry is encouraged to get on with the job, the Canadian oil crisis will be very real in the years which lie ahead.

W. H. Rea

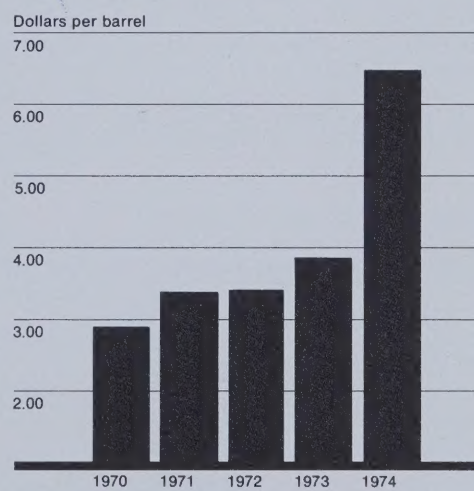
W. Harold Rea, *Chairman of the Board*

K. F. Heddon

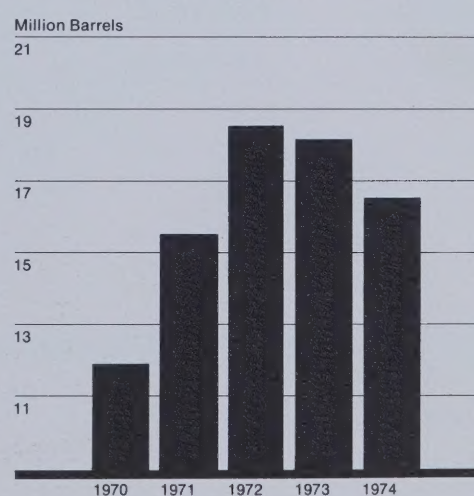
K. F. Heddon, *President*

FEBRUARY 10, 1975

REVENUE PER BARREL OF SYNTHETIC CRUDE



SYNTHETIC CRUDE PRODUCTION



Consolidated Balance Sheet

December 31, 1974 *(with comparative figures as at December 31, 1973)*

ASSETS	1974	1973
Current:		
Cash	$ 427,000	$ 245,000
Accounts receivable —		
Trade (note 4)	8,549,000	8,104,000
Other	1,406,000	685,000
Inventories (note 1) —		
Finished product	2,987,000	1,755,000
Material and supplies	10,591,000	8,402,000
Prepaid charges	2,326,000	1,762,000
Total current assets	26,286,000	20,953,000
Plant facilities and housing (notes 1 and 3):		
Plant, buildings and equipment, at cost	226,286,000	220,498,000
Less accumulated depreciation	43,821,000	35,883,000
	182,465,000	184,615,000
Housing —		
Rental housing units, at cost (less accumulated depreciation 1974 — $527,000; 1973 — $417,000)	2,410,000	388,000
Housing under construction and serviced lots, at cost	9,182,000	3,588,000
Housing units to be sold under long-term instalment sale agreements with employees, at the lower of cost or selling price	1,805,000	1,429,000
Accounts receivable under long-term instalment sale agreements, for housing units sold to employees, less current portion included in accounts receivable — other (note 11)	15,431,000	14,888,000
Total plant facilities and housing	211,293,000	204,908,000
Deferred costs (notes 1 and 3):		
Deferred development, preproduction and start-up costs, less write-offs and amortization	55,932,000	57,927,000
Deferred overburden removal costs	16,814,000	14,208,000
Total deferred costs	72,746,000	72,135,000
	$310,325,000	$297,996,000

On behalf of the Board:

W. H. REA Director

M. B. PARMELEE Director

Great Canadian Oil Sands Limited

(Incorporated under the laws of Canada)

LIABILITIES	1974	1973
Current:		
Bank loans	$ 1,350,000	$ 5,000,000
Short-term notes	8,000,000	10,000,000
Accounts payable and accrued charges (note 4)	16,057,000	10,872,000
6% unsecured debentures (Alberta issue) due May 15, 1975 (note 5)	12,354,000	
Other long-term debt due within one year	2,651,000	2,456,000
Total current liabilities	40,412,000	28,328,000
Long-term debt, less amounts due within one year (note 5):		
5¾% notes due July 1, 1991 (1974—U.S. $40,000,000; 1973—U.S. $42,000,000) translated at exchange rates prevailing at date of issue	43,015,000	45,166,000
6¼%—11% mortgages payable on houses sold and to be sold and rental housing units (repayable over terms up to 30 years)	13,878,000	11,161,000
6% unsecured debentures (Alberta issue) due May 15, 1975		12,355,000
Total long-term debt	56,893,000	68,682,000
Total liabilities	97,305,000	97,010,000

SHAREHOLDERS' EQUITY		
Capital (note 6):		
Authorized— 2,000,000 Voting Preferred Shares of $100 par value each consisting of 500,000 First Preferred Shares, 500,000 Second Preferred Shares, 450,000 Third Preferred shares and 550,000 Fourth Preferred Shares (issuable in series) 35,000,000 Common Shares without nominal or par value		
Issued— 7% Non-Cumulative Redeemable (at par) Preferred Shares		
500,000 First Preferred Shares	50,000,000	50,000,000
500,000 Second Preferred Shares	50,000,000	50,000,000
450,000 Third Preferred Shares	45,000,000	45,000,000
200,000 Fourth Preferred Shares, Series A	20,000,000	20,000,000
28,504,109 Common Shares (1973—28,504,039 shares)	126,230,000	126,229,000
Total Capital	291,230,000	291,229,000
Deficit	(78,210,000)	(90,243,000)
Total shareholders' equity	213,020,000	200,986,000
	$310,325,000	$297,996,000

(See accompanying notes)

Consolidated Statements of Income and Deficit

For the year ended December 31, 1974 *(with comparative figures for 1973)*

INCOME	1974	1973
Revenue:		
Sales of synthetic crude and other products (note 2)	**$106,178,000**	$72,067,000
Interest (note 2)	**1,201,000**	1,164,000
Other (note 7)	**749,000**	
	108,128,000	73,231,000
Costs and expenses:		
Costs, operating, administrative and general expenses (notes 2, 8 and 10)	**78,899,000**	60,716,000
Amortization of deferred development, preproduction and start-up costs (note 1)	**1,995,000**	2,180,000
Depreciation (notes 1 and 8)	**7,796,000**	7,896,000
Interest—		
Bank loans and short-term notes	**1,350,000**	606,000
Long-term debt	**4,192,000**	4,163,000
Loss (gain) on retirement or disposal of fixed assets (note 2)	**1,863,000**	(13,000)
	96,095,000	75,548,000
Income (loss) for the year before income taxes and extraordinary item (note 10)	**12,033,000**	(2,317,000)
Provision for income taxes (note 9)	**8,012,000**	
Income (loss) before extraordinary item (notes 10 and 13)	**4,021,000**	(2,317,000)
Extraordinary item (note 9):		
Income tax reduction resulting from prior years' losses	**8,012,000**	
Net income (loss) for the year (notes 10 and 13)	**$ 12,033,000**	$ (2,317,000)

DEFICIT		
Balance, January 1	**$ 90,243,000**	$87,926,000
Net income (loss) for the year	**12,033,000**	(2,317,000)
Balance, December 31	**$ 78,210,000**	$90,243,000

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1974 *(with comparative figures for 1973)*

	1974	1973
Sources of working capital:		
From operations — Income (loss) before extraordinary item	**$ 4,021,000**	$ (2,317,000)
Items not involving an outlay (receipt) of funds during the year:		
Depreciation (notes 1 and 8)	**7,796,000**	7,896,000
Amortization of deferred development, preproduction and start-up costs (note 1)	**1,995,000**	2,180,000
Net reduction (increase) in deferred overburden removal costs (notes 1 and 8)	**(1,649,000)**	1,400,000
Loss (gain) on retirement or disposal of fixed assets	**1,863,000**	(13,000)
Income taxes eliminated by application of prior years' losses (note 9)	**8,012,000**	
Total working capital from operations	**22,038,000**	9,146,000
Mortgages on houses (net)	**2,717,000**	2,096,000
Issue of common shares	**1,000**	22,000
Total sources of working capital	**24,756,000**	11,264,000
Applications of working capital:		
6% unsecured debentures (Alberta issue) maturing within one year	**12,355,000**	
5¾% notes maturing within one year	**2,151,000**	2,151,000
Plant facilities and housing	**17,001,000**	17,050,000
Total applications of working capital	**31,507,000**	19,201,000
Decrease in working capital	**$ 6,751,000**	$ 7,937,000
Analysis of the change in working capital:		
Cash	**$ 182,000**	$ 130,000
Accounts receivable	**1,166,000**	2,633,000
Inventories	**3,421,000**	343,000
Prepaid charges	**564,000**	879,000
Bank loans and short-term notes	**5,650,000**	(15,000,000)
Accounts payable and accrued charges	**(5,185,000)**	(2,745,000)
Current portion of long-term debt	**(12,549,000)**	23,000
Notes payable to Sun Oil Company		5,800,000
Decrease in working capital	**$ 6,751,000**	7,937,000

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1974

1. Summary of significant accounting policies

(a) Consolidation—
The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

(b) Inventories—
Inventories of finished product and inventories of material and supplies are valued at the lower of average cost and estimated net realizable value.

(c) Depreciation of plant facilities and housing, and amortization of deferred costs—
The company's productive facilities are being depreciated using a unit of production method based on estimated reserves. Furniture and fixtures and mobile equipment are being depreciated on a straight-line basis over their estimated useful life periods ranging from two to ten years. Rental housing units are being depreciated on a straight-line basis over five years (trailers) and twenty-five years (buildings).

Deferred development, preproduction and start-up costs are being amortized against income using a unit of production method based on estimated reserves.

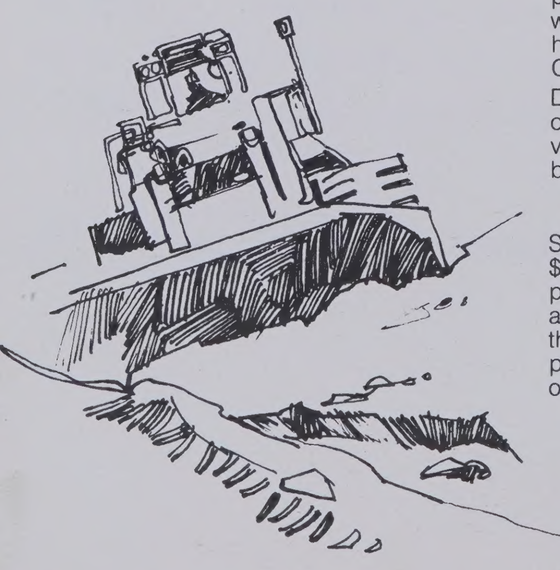
Deferred overburden removal costs are being charged to production on the basis of the area actually mined.

(d) Maintenance, repairs and shutdown expenses—
Normal maintenance and repairs are charged to expense as incurred. The cost of major maintenance shutdowns is estimated and accrued over the period between each shutdown.

2. Changes in statement presentation

Without affecting net income for 1974 and 1973 the company adopted in 1974 the policy of showing as "Revenue" the value of product actually sold, rather than the value of product produced. The comparative figures for 1973 have been restated accordingly (resulting in an increase in both total revenues and total costs originally reported for that year of $54,000).

Interest income, and loss (gain) on assets retired or disposed of, which in prior years were deducted or added in arriving at the total for "Costs, operating, administrative and general expenses", are shown separately in this year's consolidated statement of income, and the comparative figures for 1973 have been restated accordingly.



3. Estimated reserves

For the purposes of determining the amounts of certain depreciation and amortization in the accounts, the remaining reserves of synthetic crude oil at December 31, 1974 have been estimated at approximately 473,000,000 barrels. The actual quantity capable of economic recovery will depend in part upon the future relationship between synthetic crude selling prices and costs.

4. Accounts with affiliated companies

Included in accounts receivable and accounts payable are the following accounts receivable from, or payable to, Sun Oil Company (parent company) and its affiliates:

Accounts receivable	$2,073,000
Accounts payable and accrued charges	1,322,000

5. Long-term debt

(a) 5¾% notes due July 1, 1991—
The terms of the 5¾% notes require annual prepayments on July 1 of U.S. $2,000,000. The company is permitted to make optional additional annual payments of up to U.S. $2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

(b) Mortgages payable—
The estimated principal repayments required on mortgages payable at December 31, 1974 are as follows:
1975—$570,000; 1976—$620,000;
1977—$670,000; 1978—$725,000;
1979—$785,000; subsequent to
1979—$11,078,000.

(c) 6% unsecured debentures (Alberta issue)—
These debentures, which mature on May 15, 1975, comprise the following:

Debentures which are partially convertible (of which $4,477,000 are held by Sun Oil Company Limited)	$12,108,000
Debentures in respect of which the partial conversion privilege has been exercised	246,000
	$12,354,000

Subject to certain terms and conditions, $32 of each $100 principal amount of the partially convertible debentures may, at any time before May 1, 1975, be applied to the purchase of and converted into two fully paid and non-assessable common shares of the company.

Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest.

6. Share capital—common shares

During the year 70 shares were issued upon partial conversion of certain of the 6% unsecured debentures (Alberta issue). There are 242,162 shares reserved for possible issuance prior to May 15, 1975 upon the partial conversion of the remaining debentures.

7. Other revenue

Other revenue represents net amounts received in 1974 from sales of certain technical information, feasibility studies, etc.

8. Depreciation on overburden removal equipment

The depreciation provision for the year ended December 31, 1974 excludes depreciation of $1,211,000 (1973—$1,345,000) on overburden removal equipment which was charged to deferred overburden removal costs. Overburden removal costs charged to operations during the year (based on the area mined) include $957,000 (1973—$976,000) in respect of depreciation previously charged to the deferred account.

9. Income taxes and extraordinary item

(a) Provision for income taxes—
On December 20, 1974 the Canadian Government introduced legislation, which has not yet been enacted, to amend the Income Tax Act. The legislation would deny, retroactive to May 6, 1974, the deduction of royalties paid to governments in computing income subject to tax. The provision for income taxes for 1974 has been computed on the assumption that the legislation will be enacted. The disallowance of such royalties results in an increase in the provision of approximately $3,600,000.

On December 12, 1974 the Alberta Government announced a program under which it would rebate to producers the additional provincial income tax arising from the disallowance of royalties paid to governments. No account has been taken, in the accompanying financial statements, of potential rebates arising from this source, but it is anticipated that the effect of the program on the company in respect of 1974 will be to permit the company to carry forward approximately $1,100,000 as a credit to be applied against Alberta corporate income tax payable in subsequent years.

(b) Extraordinary item—
The extraordinary gain represents the reduction in income taxes resulting from the application of prior years' losses. At December 31, 1974 the amount of prior years' losses remaining to be applied to future years' income is estimated to be approximately $32,000,000, of which approximately $11,000,000 is an actual loss for tax purposes which, unless utilized, will expire in 1975. The balance of $21,000,000 represents expenses which have been recorded in the financial statements but not yet claimed for tax purposes.

10. Lease royalty commitments and royalty waiver

In addition to crown royalties payable on production, the company is obligated to pay Sun Oil Company Limited and CIGOL International Ltd. (under the provisions of the sublease agreement referred to in note 11(a) below) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from bituminous sands from the leased land, together with an additional royalty of 25% of synthetic crude revenues in excess of $2.75 per barrel (declining to $2.60 in the future under certain conditions), and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. Such royalties are payable 75% to Sun and 25% to CIGOL.

Effective April 1, 1970 Sun has waived 100% of its share of the royalties until the earlier of the elimination of the company's deficit account or a determination that the financial results from the company's operations are satisfactory. The reduction in costs due to this temporary relief was: 1974 – $13,077,000; 1973 – $5,817,000.

11. Other commitments and contingent liabilities

(a) The company is a party to an agreement with Sun Oil Company Limited and CIGOL International Ltd. (successor to Abasand Oils Limited) involving the sublease of Bituminous Sands Lease No. 86 in respect of which the company is operating its plant. Lease No. 86 runs for a term of twenty-one years from June 1, 1966 renewable for further terms each of twenty-one years so long as the plant is in operation and subject to such terms and conditions as may be prescribed at the time renewal is granted.

The annual rental is $1 per acre. Under this agreement the company has also assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca Tar Sands area. Principal payments on this debt have been deferred on an interest free basis until 1978. As the company hopes to obtain relief from this debt, it has not been recorded in the accounts of the company.

(b) Under the provisions of the sale agreements covering the sale of housing units to employees, the company has undertaken, in the event of employee termination within ten or twelve years of the date of the sale agreement, to repurchase the employee's housing unit. The potential net outlay under such repurchase commitments at December 31, 1974 would amount to approximately $943,000.

(c) The company is a party to long-term agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of synthetic crude oil.

(d) The company's unfunded past service pension liability at December 31, 1974 is estimated at approximately $770,000. This amount will be funded and charged to income over the next fifteen years.

(e) Commitments for capital expenditures at December 31, 1974 totalled approximately $11,000,000.

12. Directors and officers

Eleven persons were directors of the company during 1974, only certain of whom were paid as such, and their remuneration aggregated $10,750. Eight persons were officers during 1974, only certain of whom were paid as such; remuneration of officers (and past officers) aggregated $146,486. Six officers were also directors.

13. Preferred share dividends and earnings per share

The $165,000,000 preferred shares carry a 7% non-cumulative dividend; no dividends have been declared or paid to date. Were a deduction made for a full annual dividend of $11,550,000 on the outstanding preferred shares the earnings per common share would be as follows:

	1974	1973
Income (loss) per share before extraordinary item (note 10)	$(0.26)	$(0.49)
Net income (loss) per share (note 10)	$ 0.02	$(0.49)

"Basic earnings" per common share, which are computed without deduction for preference share dividends (since none have been declared), are as follows:
Income (loss) per share before extraordinary item: 1974 – $0.14; 1973 – $(0.08);
Net income (loss) per share: 1974 – $0.42; 1973 – $(0.08).

Auditors' Report

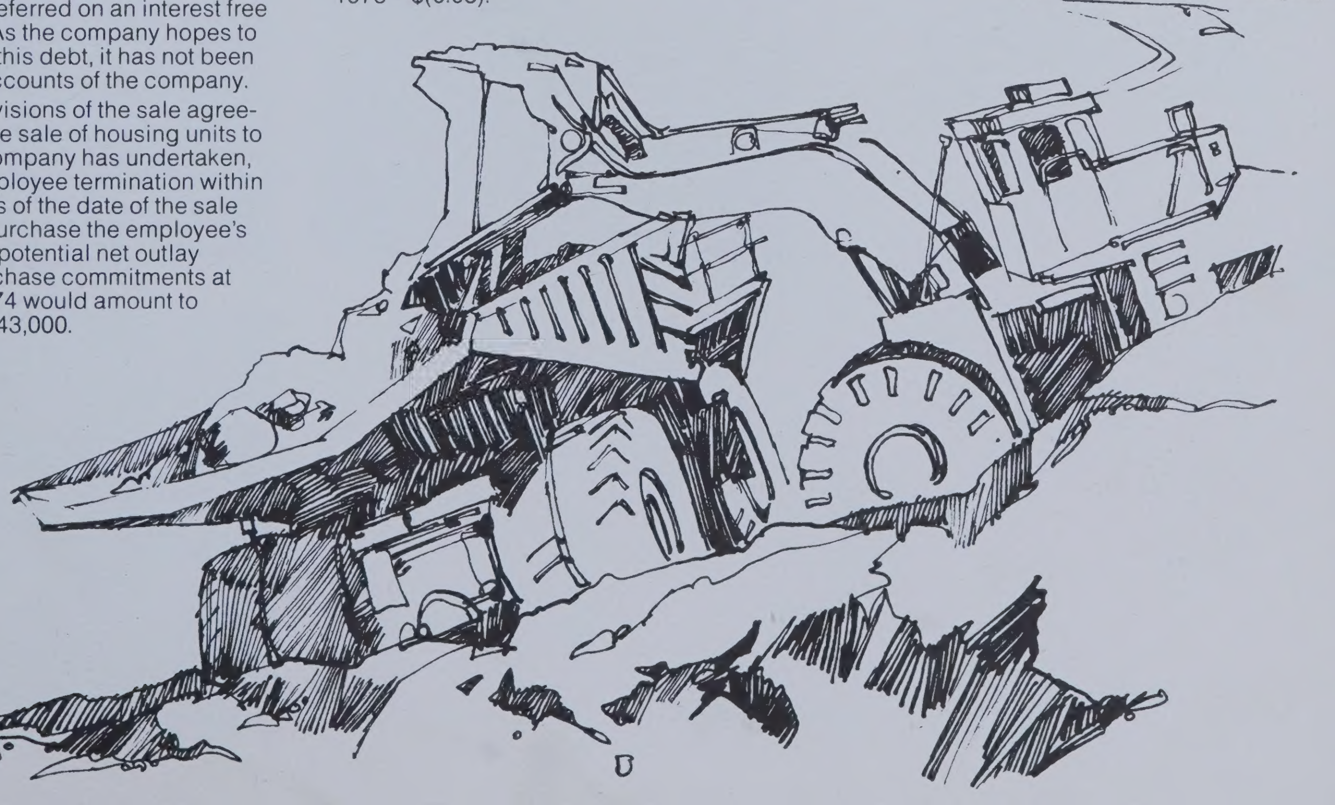
To the Shareholders of
Great Canadian Oil Sands Limited:

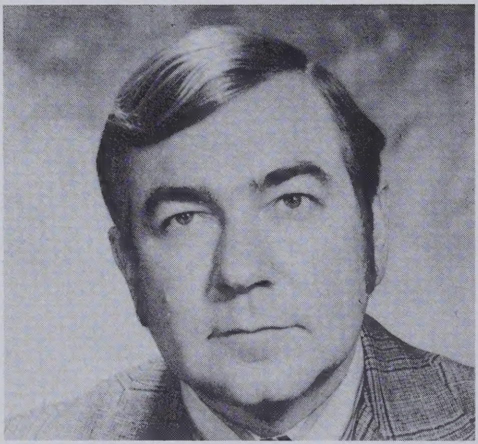
We have examined the consolidated balance sheet of Great Canadian Oil Sands Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

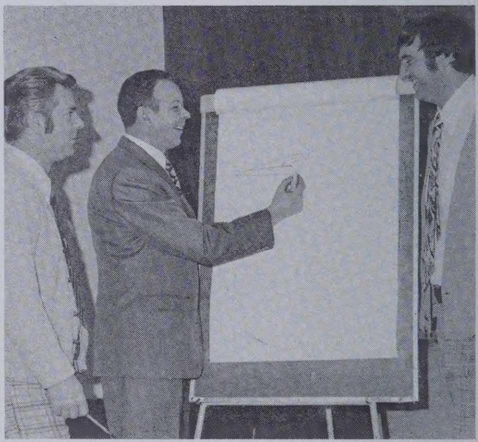
Clarkson, Gordon & Co.

Chartered Accountants.
Edmonton, Canada,
January 21, 1975.





Three new management posts created in 1974 all report to Reginald D. Humphreys, vice president and general manager (top left). They are: (top to bottom, right) William L. Oliver, director, Marketing; W. C. Tostevin, director, Finance and Planning; and Earl J. Rea, director, Plant Operations.



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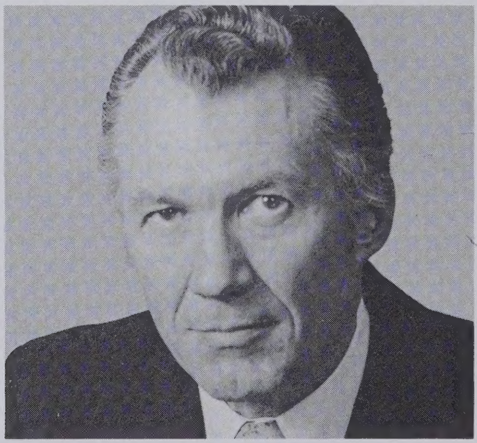

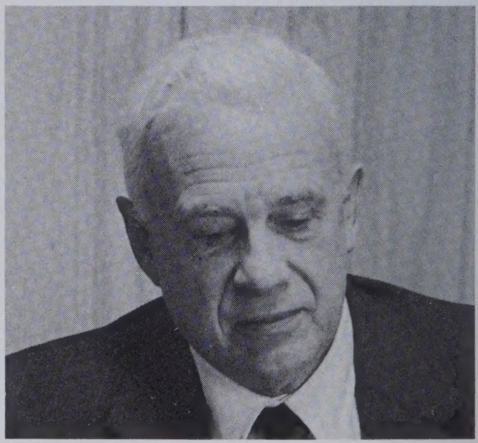

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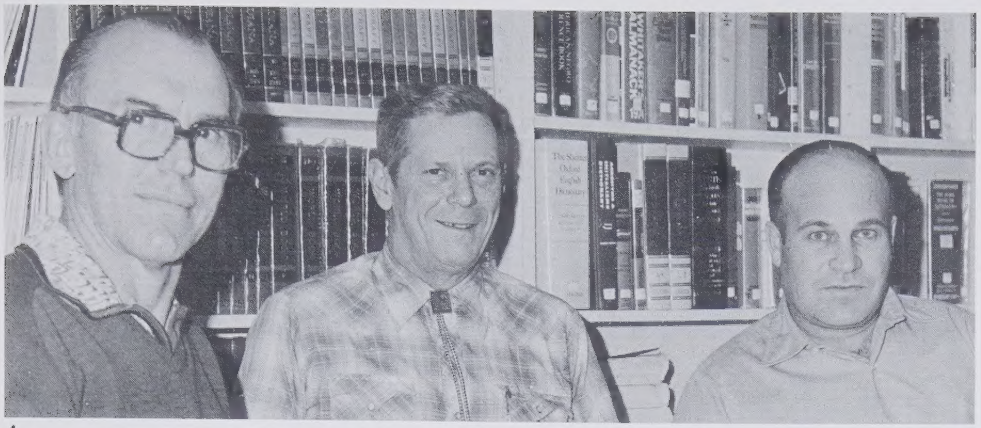

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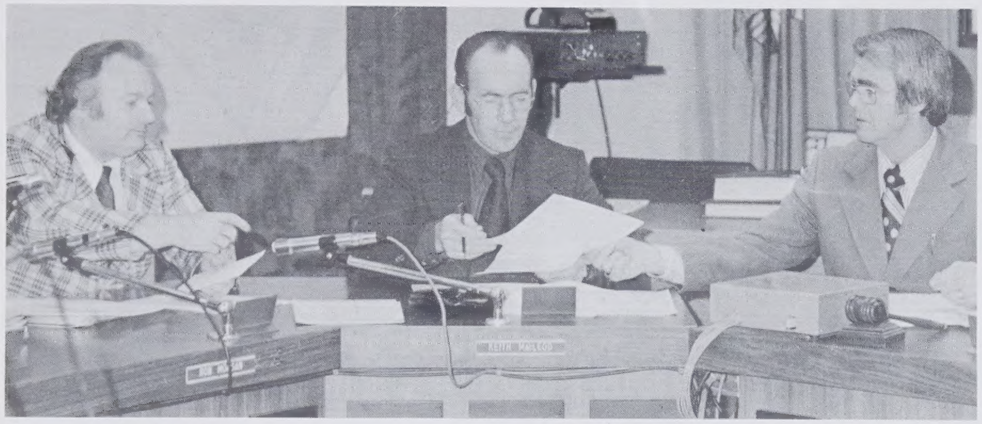


5.

Numerous GCOS employees serve the residents of Fort McMurray in a wide variety of offices ranging from the town's Board of Administrators to posts in service clubs and other groups. Space permits only a few to be pictured here.

1. Recreation Board: GCOS employees on the nine-member Recreation Board are (left to right), Danny Law, Instrument Design leader; Sigfried Winzer, senior staff engineer; and Joe Anderson, manager, Mining and Extraction.

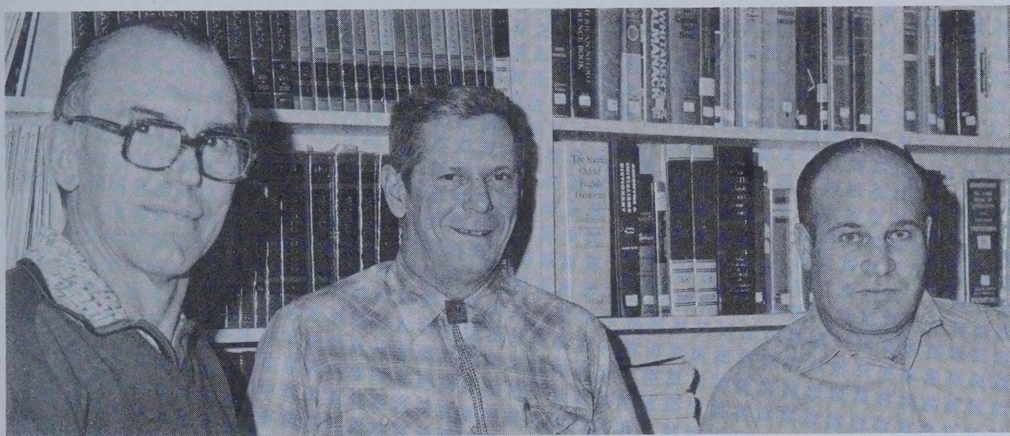
2. Hospital Board: Charles Orchard, consultant, Human Resources Planning and Development.

3. Public and Separate School Boards: Standing left to right, John Shorter, superintendent, Utilities Department; Arnie Godin, manager, Process, Utilities and Laboratory. Seated at left, Ernie Thompson, electrician. Messrs. Shorter, Godin and Thompson sit on the five-member Separate School Board. Jack Avery, seated right, a GCOS unit leader serves on the five-member Public School Board.

4. Library Board: GCOS employees on the eight-member board are (left to right), Bill Cary, co-ordinator, Environmental Conservation; Don Smith, mechanical specialist; and Clarence Palsky, group leader.

5. Board of Administrators of the Town of Fort McMurray: Left to right: Ron Morgan, Material Central Technician; Keith MacLeod, manager Sunoco service station; Chuck Knight, Public Relations representative. Not shown is Bill Gendreau, diesel mechanic. Total Board membership is seven.

In co-operation with universities, government departments and research councils, GCOS has been planting and testing grasses, shrubs and trees on the walls of the tailings pond near the plant. The revegetation program has attracted a variety of wildlife to the area. It is part of a commitment to leave the lease as good as or better than it was before mining began.



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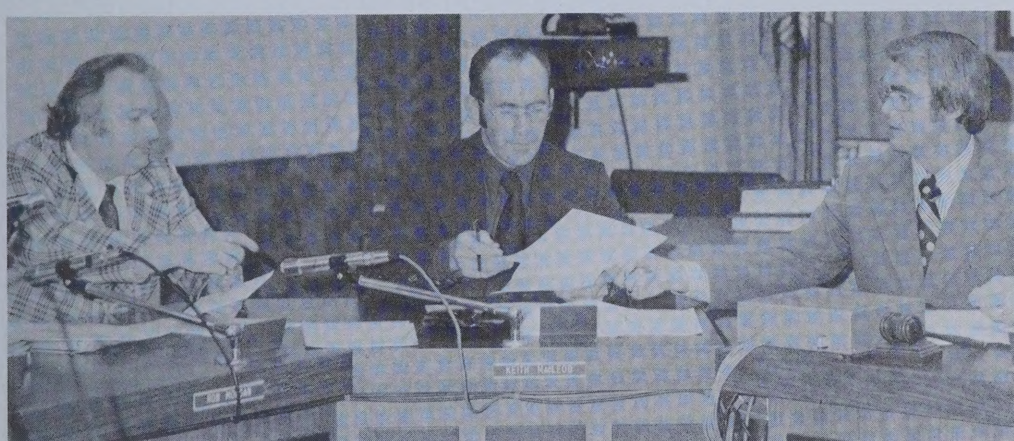

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Everyone contributes to pollution. Everyone is affected by pollution. When the universality of responsibility and involvement is recognized, a total solution will be near at hand.
Industry must play its part; indeed, it shares a duty with government to take the lead.

Great Canadian Oil Sands Limited

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